

Equity team commentary: Strong earnings underpinning market resilience

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Key takeaways

- Despite geopolitical tensions, inflation, and policy uncertainty, equity markets have remained robust, with indices near all-time highs. Investor sentiment has shifted from fear of loss to a fear of missing out, driven by strong earnings and algorithmic trading.
- Both Canadian and US companies are reporting impressive sales and earnings growth. Forward-looking estimates suggest continued strong performance, contingent on geopolitical stability and consumer resilience.
- Significant mergers and acquisitions across sectors within Canada—including GFL Environmental, mining companies, and Shell—highlight renewed foreign interest in Canadian energy and the strategic repositioning of Canadian firms. These deals are seen as value-creating and shareholder-friendly.
- Events such as US tariff amendments, the Middle East conflict, and the UAE's exit from OPEC are shaping market dynamics. The introduction of the Canada Strong Fund, a Canadian sovereign wealth fund, signals a shift towards greater economic independence and investment in nation-building projects.

Lenin famously remarked, “There are decades where nothing happens, and there are weeks where decades happen.” In today’s relentless 24-hour news cycle—dominated by sensational headlines and the constant stream of ‘Truth Social’ posts—it feels as though every month delivers seismic shifts that once took years.

This month's most remarkable statistic, among many contenders, is the market's uncanny resilience: equity indices are flirting with all-time highs despite an ongoing war in the Middle East, persistent inflation, mounting questions over Federal Reserve independence, disruptive trade rhetoric, looming AI-driven disruption, and pervasive geopolitical uncertainty. Investors have become adept at 'buying the dip,' and the prevailing emotion is not fear of loss, but fear of missing out.

So far, strong earnings have underpinned much of this optimism, with companies posting near double-digit growth in the current earnings season. The rapid rebound—yet another “V-shaped” recovery—can be attributed to accelerated algorithmic trading amplifying trends, and short-sellers scrambling to cover as fundamentals shift. Two standout examples in Canada: Rogers Communications and Waste Connections surged 13% and 9% respectively on robust, though imperfect, results. Conversely, companies falling short of expectations faced swift and severe punishment—Celestica plummeted 15% despite a solid quarter, while CN and CGI dropped 6% and 11% on lackluster performance. In this market, excuses are simply not tolerated; only results matter.

Overall, this quarter's earnings results have been nothing short of extraordinary. Although we are only about 20% through Q1 earnings season in Canada, companies are collectively delivering 12% sales growth and nearly 20% earnings growth—driven largely by the robust performance of the materials sector from strong commodity prices. The S&P 500 is showcasing even more impressive numbers: with 60% of constituents having reported, year-over-year sales growth stands at 11% and earnings growth at a remarkable 30%. Strength among US companies is broad-based, with only healthcare showing a modest decline during the period.

Even more compelling is the forward-looking growth outlook, with consensus estimates projecting 20% to 30% EPS growth over the next year. The realization of these optimistic forecasts will depend heavily on the resolution of the Middle East conflict and the continued resilience of the North American consumer. Recent bank earnings transcripts provide valuable insight: JPMorgan management emphasized on their Q1 call that the consumer remains “steady across all measures, including delinquency rates, cash buffer spend, discretionary spend, and non-discretionary spend, with changes in energy prices not yet visibly impacting consumer spending behavior.” Meanwhile, Wells Fargo observed, “consumers are spending more on gas but have not yet adjusted spending in other categories, with management expecting it to take several months to make such adjustments.”

M&A activity emerged as a defining theme among TSX-listed companies this month, with several deals carrying genuine national significance for Canada. GFL Environmental announced its intention to acquire Secure Waste in a highly accretive, growth-enhancing transaction designed to deepen Western Canadian collection density. The market's initial reaction was, at best, short-sighted and, at worst, fundamentally misinformed. The dominant narrative—that Secure's addition would meaningfully amplify GFL's oil sensitivity and volatility, overlooks a critical evolution in Secure's business: in recent years, the company has deliberately shifted its revenue mix toward the more stable, predictable volumes tied to steady oil production, moving away from its historically volatile exposure to drilling and completion activity. Moreover, in the current global energy environment, the consistency and long-term reliability of Canadian oil sands production is not a liability—it is a strategic asset that will remain indispensable for decades. GFL punctuated the month with a strong beat-and-raise quarter, underpinned by impressive 7% pricing power, decisively reaffirming the durability and merit of its business model.

In the mining sector, two transactions stood apart for their strategic depth and structural logic. G Mining made a bold bid for its immediate neighbor in Guyana, while Agnico Eagle executed three simultaneous acquisitions to consolidate a world-class gold mining hub in Finland. What makes these deals exceptional is the context in which they occur: mining M&A has a well-documented history of marking cycle peaks and destroying shareholder value. Yet in both instances, the investment thesis is compelling—meaningful synergies arise from combining adjacent operations, and the ability to drive greater throughput through shared infrastructure transforms these from mere growth acquisitions into genuine value-creation events. Both transactions are highly accretive, strategically sound, and shareholder-friendly.

Perhaps the most consequential deal of the month, however, was Shell's \$22 billion acquisition of Arc Resources in a combination of stock and cash. The significance of this transaction extends well beyond its headline price tag. It represents a powerful signal of renewed foreign conviction in the Canadian energy sector—a vote of confidence that has been notably absent in recent years. Furthermore, it materially improves the probability of regulatory approval for Shell's Phase 2 LNG terminal, a project with transformative implications for Canada's energy export capacity. Setting politics aside, the new Liberal Government appears to be cultivating a more stable and attractive investment environment—and that is unambiguously good news for all Canadians.

While not directly connected to any of the above transactions, it is noteworthy that Prime Minister Carney announced an early framework for a Canadian sovereign wealth fund—The Canada Strong Fund—to help progress and profit from large “nation-building” projects in energy, infrastructure, transit and mining. The \$25 billion CAD initial funding will invest alongside private-sector partners and everyday Canadians in domestic projects to help reduce dependence on the US, to boost productivity and economic

growth, and capture and retain more of the domestic economy's wealth from Canada's natural resources. The best time to plant a tree was 25 years ago, but the next best time is today—the same can be said about starting a sovereign wealth fund—the details are light on specifics, but the idea is right.

Mid-way through the month, the US Government injected some additional uncertainty on a selection of Canadian manufacturers by announcing a surprise amendment to Section 232 tariffs. The imposed tariffs on steel, aluminum and derivative products blurs the line between national security and boosting US domestic manufacturing, but also undermines a core export advantage for select Canadian manufacturers like BRP. The 232 tariffs are essentially a geopolitical tax on North American integration, and dampens the prospects for a collegial outcome in the upcoming CUSMA negotiations. At this point, the most likely outcome for those discussions is a kick of the can for another year, and the continuation of the status quo.

Of all the variables shaping the future direction of equity markets, none looms larger than the Middle East. While markets have repeatedly attempted to look past the ongoing stalemate, the risk of a sudden escalation in hostilities—or of geopolitical egos overriding reasonableness—carries consequences that extend far beyond portfolio losses; the human cost alone is incalculable. The longer the Strait of Hormuz remains closed to commerce and oil flow, the more relentless the pressure on energy prices, consumer sentiment, and global growth will become. The ripple effects are already visible: airlines have cancelled tens of thousands of flights, triggering a cascade of lost hotel stays, restaurant bookings, and ground transportation revenue—all of which will eventually erode the resilient growth figures that have underpinned market optimism to date. While North America is considerably better insulated from an energy shock than most other regions (namely Europe and parts of Asia), the compounding effects of sustained higher energy costs will inevitably weigh on both corporate earnings and consumer confidence, and could ultimately catalyze a meaningful market correction.

Against this backdrop, it was particularly noteworthy that the UAE announced its decision to exit OPEC this month. The implications are significant: if OPEC's cohesion begins to fracture, or if Saudi Arabia—the cartel's de facto leader—moves to discipline dissenters through a supply response, the result could be a structurally lower long-term oil price environment. While this development offers little relief for near-term prices, it introduces a new and important dynamic to the global energy equation. Importantly, Canadian producers such as Suncor, Cenovus, Canadian Natural Resources and Whitecap are exceptionally well-positioned to weather any commodity price backdrop. Their low marginal cost structures, stable and strategically advantageous geography, and an increasingly supportive Government framework collectively provide a durable competitive edge—regardless of where the global price of oil ultimately settles.

May promises to be a pivotal month on multiple fronts. Geopolitically, investors will be closely watching for meaningful signals of either a pathway to resolution or a dangerous escalation of hostilities—an outcome that could single-handedly reshape the risk landscape. On the corporate front, the bulk of Canadian companies will report earnings, headlined by the Big 6 banks, whose results will serve as a critical barometer for the health of the broader Canadian economy and the resilience of the North American consumer. And perhaps most fundamentally, markets will be tested on whether equities can continue their remarkable ascent up the wall of worry.

Since the depths of the COVID lows, stocks have compounded returns at nearly 20% annually—a truly extraordinary run by any historical measure. Yet sustaining that track record from current levels will demand a near-perfect confluence of incrementally positive developments: easing geopolitical tensions, robust consumer spending, continued earnings momentum, and a Federal Reserve that navigates the fine line between restraint and flexibility with precision. The bar is high, the variables are many, and the margin for disappointment is razor thin.

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